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MORTGAGE BANKING

THE MAGAZINE OF REAL ESTATE FINANCE

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Hedging, Sears' style

Selling, Boston's style

Answering, telephone style

The Global Hunt for Money

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AUGUST 1988 VOLUME 48 NUMBER 11

COVER: The Global Search For Capital

In the 1970s, the major secondary market participants began securitizing mortgages to better tap domestic capital markets. Now those same institutions, along with Wall Street investment banking firms, are looking globally for money for the U.S. housing market. They are confronting obstacles and mostly meeting with success, but the whole phenomenon is just starting.

12 Money Anywhere *If adjustable rate mortgages linked to the London Interbank Offered Rate already exist, can a LIBOR ARM security be far behind? No, that's in the works, too, as are new international forays by Fannie Mae and Freddie Mac.* By BILL BLACK

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COVER ILLUSTRATION BY DALE GUSTAFSON

World-Class Money, A World-Class Hedger

This month's cover report looks at who is doing what to attract foreign capital to U.S. real estate markets. One fascinating detail: the money in Japan's Postal Savings System adds up to almost a trillion dollars, and some of it is coming into the American secondary mortgage market.

A Special Section is devoted to hedging, and it begins with an article about Sy Naqvi, who is responsible for minimizing risk in $5.8 billion in loans originated by Sears Mortgage and Coldwell Banker. Another contribution deals with the how and why of hedging servicing portfolios, while a third discusses the options and futures markets as hedging tools.

Other contributions deal with how a Connecticut bank became the U.S. leader in biweekly mortgages, how Boston's banks are turning to marketing experts to win deposits and how some mortgage bankers believe other mortgage bankers should pay more attention to their ringing telephones.

In Forum, a 1988 honors graduate of the Harvard Business School explains why she didn't go into mortgage banking, while an executive who is only a few points away from her CMB describes why she did.

Warren Lasko
Executive Vice President

COMING IN SEPTEMBER

The Loan Processing Express

Streamlining the mortgage-loan application process is consuming the efforts of a plethora of committees in real estate finance and in the government. The 15-day mortgage is not yet the standard, but, if things go as scheduled, the 60-day mortgage is headed toward derailment. An encouraging and universal question: "Does everyone need this information, or can we get rid of it?"

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VOLUME 48 NUMBER 11

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HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS: Actual Total	HOUSING STARTS: Actual 1-4 Units	HOUSING STARTS: Actual 5+ Units	HOUSING STARTS: Seasonally Adjusted Annual Rates Total	HOUSING STARTS: Seasonally Adjusted Annual Rates 1-4 Units	HOUSING STARTS: Seasonally Adjusted Annual Rates 5+ Units	PERMITS 17,000 ISSUING PLACES: Actual Total	PERMITS 17,000 ISSUING PLACES: Actual 1-4 Units	PERMITS 17,000 ISSUING PLACES: Actual 5+ Units	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates Total	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates 1-4 Units	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates 5+ Units
1987												
DEC	85	64	21	1,399	1,086	313	94	66	28	1,372	1,040	332
1988												
JAN	78	59	19	1,382	1,069	313	70	54	16	1,248	988	260
FEB	90	68	22	1,519	1,161	358	93	68	25	1,429	1,078	351
MAR	129	105	24	1,529	1,229	300	140	107	33	1,476	1,110	366
APR	153	112	41	1,576	1,146	430	138	101	37	1,449	1,035	414
MAY$_p$	**139**	**108**	**31**	**1,384**	**1,051**	**333**	**136**	**104**	**32**	**1,427**	**1,041**	**386**
1987 TOTAL	1,620	1,211	409				1,535	1,114	421			
1986 TOTAL	1,805	1,263	542				1,769	1,185	584			
5 MONTHS												
1988	589	452	137				579	434	145			
1987	667	503	164				650	478	172			
1986	753	518	235				732	486	246			
1985	691	472	219				687	440	247			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS: Actual North East	HOUSING STARTS: Actual Mid-West	HOUSING STARTS: Actual South	HOUSING STARTS: Actual West	HOUSING STARTS: Seasonally Adjusted Annual Rates North East	HOUSING STARTS: Seasonally Adjusted Annual Rates Mid-West	HOUSING STARTS: Seasonally Adjusted Annual Rates South	HOUSING STARTS: Seasonally Adjusted Annual Rates West	PERMITS 17,000 ISSUING PLACES: Actual North East	PERMITS 17,000 ISSUING PLACES: Actual Mid-West	PERMITS 17,000 ISSUING PLACES: Actual South	PERMITS 17,000 ISSUING PLACES: Actual West	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates North East	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates Mid-West	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates South	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rates West
1987																
DEC	13	14	37	22	222	281	576	320	18	14	35	27	261	240	490	381
1988																
JAN	14	8	32	24	306	226	463	387	12	8	29	21	264	230	420	334
FEB	12	11	42	26	307	259	593	360	13	11	43	26	258	262	553	356
MAR	22	18	53	36	291	262	572	405	26	24	54	37	306	276	525	369
APR	25	32	59	37	265	346	593	372	24	27	46	38	265	272	512	400
MAY$_p$	**21**	**30**	**54**	**35**	**206**	**269**	**555**	**352**	**23**	**28**	**49**	**36**	**235**	**271**	**535**	**386**
1987 TOTAL	269	298	634	420					272	282	575	406				
1986 TOTAL	294	296	733	483					283	290	687	510				
5 MONTHS																
1988	93	99	240	157					98	100	223	158				
1987	101	114	271	180					108	115	252	175				
1986	103	102	338	209					104	107	309	212				
1985	83	83	332	193					98	82	314	194				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands) EXISTING HOUSES[1] Sold	NEW HOMES Sold	NEW HOMES Available For Sale	NEW HOMES Months Supply at Current Rate	VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions) Seasonally Adjusted Annual Rate Total	1 Unit	2+ Units	Non-res.	CONSTRUCTION STATUS (Units in thousands) Seasonally Adjusted Annual Rate Under Construction Total	1-4 Units	5+ Units	Completions Total	1-4 Units	5+ Units
1987														
DEC	220	37	370	7.6	238.0	117.4	25.4	95.2	1,016	659	357	155	112	43
1988														
JAN	191	43	366	7.7	231.9	117.0	23.8	91.1	1,008	654	354	110	82	28
FEB	220	55	363	6.8	228.5	115.4	22.6	90.5	983	636	347	100	73	27
MAR	303	67	368	6.9	232.9	117.6	21.6	93.7	999	656	343	121	86	35
APR	322	66	366	6.8	233.5	117.6	21.1	94.8	1,002	661	341	123	85	38
MAY$_p$	**344**	**62**	**371**	**6.9**	**236.6**	**116.1**	**21.6**	**98.9**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
1987 TOTAL	3,520	671										1,669	1,194	475
1986 TOTAL	3,565	750										1,756	1,206	550
5 MONTHS														
1988	1,380	294										n.a.	n.a.	n.a.
1987	1,459	319										648	442	206
1986	1,374	363										651	439	212
1985	1,225	292										624	423	201

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED

By Type of Institution and By Unit Type

(Dollars in millions)

YEAR AND MONTH	TOTAL Total	Mtg. Bankers[3]	S&Ls	Banks[2]	Life Cos.	1-4 UNITS Total	Mtg. Bankers[3]	S&Ls	Banks[2]	Life Cos.
1987										
SEP	$50,492	$7,526	$16,761	$23,097	$3,108	$32,499	$7,070	$13,595	$11,644	$190
OCT	49,841	7,387	16,719	22,151	3,584	31,311	6,819	13,647	10,629	216
NOV	43,840	5,678	13,708	20,928	3,526	26,482	5,450	11,378	9,432	222
DEC	52,632	6,794	16,617	24,833	4,388	29,464	6,582	12,238	10,530	114
1988										
JAN	36,953	5,919	10,683	18,765	1,586	21,139	5,742	8,327	7,038	32
FEB$_p$	**35,647**	**5,885**	**10,924**	**17,021**	**1,816**	**20,604**	**5,440**	**8,507**	**6,626**	**31**
1987 TOTAL	648,148	115,373	210,358	286,789	35,628	445,434	110,093	173,822	158,257	3,262
1986 TOTAL	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
2 MONTHS										
1988	72,806	12,011	21,607	35,786	3,402	41,743	11,182	16,834	13,664	63
1987	91,431	20,060	26,084	42,055	3,232	66,110	18,603	21,251	25,620	436
1986	53,784	11,323	20,990	18,186	3,285	35,286	10,494	16,050	8,509	233
1985	41,075	8,152	15,918	14,675	2,330	26,411	7,486	11,340	7,483	102

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers[5]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[5]	S&Ls	Banks[2]	Life Cos.
1987										
SEP	$2,821	$236	$1,420	$787	$378	$15,166	$220	$1,746	$10,660	$2,540
OCT	3,106	383	1,495	862	366	15,277	185	1,577	10,513	3,002
NOV	2,542	151	1,022	983	386	14,609	77	1,308	10,306	2,918
DEC	3,371	97	1,986	969	319	19,797	115	2,393	13,334	3,955
1988										
JAN	2,122	160	1,171	710	81	13,692	17	1,185	11,017	1,473
FEB$_p$	**1,880**	**385**	**990**	**421**	**84**	**13,163**	**61**	**1,427**	**9,974**	**1,701**
1987 TOTAL	36,735	2,409	17,719	12,887	3,720	165,979	2,871	18,817	115,645	28,646
1986 TOTAL	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
2 MONTHS										
1988	4,208	751	2,161	1,131	165	26,855	78	2,612	20,991	3,174
1987	5,261	545	2,485	1,964	267	20,060	712	2,348	14,471	2,529
1986	4,158	409	2,317	1,007	425	14,340	420	2,623	8,670	2,627
1985	3,058	414	1,614	795	235	11,606	252	2,964	6,397	1,993

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[5]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[5]	S&Ls	Banks[2]	Life Cos.
1987										
SEP	$37,181	$7,705	$18,912	$8,535	$2,029	$131,680	$15,834	$50,892	$48,696	$16,258
OCT	39,771	10,964	18,768	7,356	2,683	126,479	13,150	50,143	47,011	16,175
NOV	29,450	4,604	15,454	6,636	2,756	126,075	12,484	47,784	49,673	16,134
DEC	26,649	2,907	15,561	6,170	2,011	111,370	6,711	44,927	46,613	13,119
1988										
JAN	28,343	7,271	13,929	5,618	1,525	106,598	8,111	41,990	43,325	13,172
FEB$_p$	**27,456**	**4,490**	**13,525**	**6,598**	**2,843**	**110,839**	**9,147**	**43,049**	**44,404**	**14,239**
1987 TOTAL	475,252	96,534	235,457	110,306	32,955					
1986 TOTAL	532,999	128,480	231,915	133,504	39,100					
2 MONTHS										
1988	55,798	11,761	27,454	12,215	4,368					
1987	69,161	17,985	30,868	16,354	3,954					
1986	59,613	15,649	26,820	11,680	5,014					
1985	38,562	7,454	19,771	7,173	4,164					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1987												
DEC	108	48	16	44	122	$8,603	66	$3,987	21	$1,511	35	$3,105
1988												
JAN	110	58	14	38	119	8,246	74	4,453	16	1,143	29	2,650
FEB	139	84	17	38	103	7,271	56	3,351	20	1,503	27	2,417
MAR	175	109	15	51	98	7,036	49	2,927	19	1,381	30	2,728
APR	165	93	14	58	88	6,591	42	2,508	14	1,039	32	3,044
MAY$_p$	**169**	**91**	**18**	**60**	**113**	**8,222**	**59**	**3,545**	**16**	**1,164**	**38**	**3,513**
1987 TOTAL	2,341	1,211	409	721	2,278	159,373	1,315	81,553	452	33,315	511	44,505
1986 TOTAL	3,279	1,907	450	922	1,853	127,758	921	56,901	346	24,719	586	46,138
5 MONTHS												
1988	806	483	78	245	521	37,366	280	16,784	85	6,230	156	14,352
1987	1,185	658	211	316	1,046	72,160	624	38,668	219	16,029	203	17,463
1986	809	333	152	324	613	42,240	312	19,129	102	6,940	199	16,171
1985	659	152	83	424	493	31,717	140	8,001	64	4,228	289	19,488

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC* Comm. to Sell	FHLMC* Comm. to Buy	FHLMC* Mtg. Purc.	FHLMC* Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1987										
DEC	$3,115	$3,747	$139,960	$6,374	$2,123	$−373*	$3,261	$3,201	$3,644	$4,690
1988										
JAN	2,254	1,267	140,522	1,683	2,096	3,867	2,168	1,832	1,651	4,348
FEB	2,516	2,629	142,797	3,190	1,869	4,911	3,293	2,414	3,694	3,142
MAR	3,823	2,776	145,242	3,352	2,973	4,262	2,932	2,312	3,458	3,106
APR	2,555	2,409	149,659	5,444	2,968	6,437	2,772	2,266	6,288	4,168
MAY$_p$	**2,142**	**2,138**	**152,826**	**4,600**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
1987 TOTAL	25,415	20,531	—	63,230	68,210	76,615	76,840	75,018	116,611	96,983
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
5 MONTHS										
1988	13,290	11,219	—	18,269	n.a.	n.a.	n.a.	n.a.	19,911	18,079
1987	9,599	7,595	—	29,764	40,539	48,442	43,078	34,624	61,743	50,491
1986	13,122	7,366	—	16,528	35,699	38,958	28,774	27,225	49,128	28,135
1985	8,825	8,975	—	6,680	18,019	19,181	14,468	13,737	20,815	14,279

*In December, master commitment conversions exceeded new master & regular commitments taken.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY FHA New[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA 1 Yr. ARM (1%/Yr.)	FNMA FRM Conv.
1987							
DEC	10.63%	10.52%	10.52%	9.15%	9.20%	10.15%	9.613%
1988							
JAN	10.17	10.09	10.10	9.13	9.25	8.93	10.010
FEB	9.86	9.80	9.81	9.12	9.16	8.62	9.642
MAR	10.28	9.99	10.01	9.15	9.14	8.60	9.737
APR	10.46	10.19	10.19	9.13	9.21	8.86	10.035
MAY$_p$	10.84	10.48	10.49	8.95	9.23	9.24	10.283
JUN$_p$	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**9.45**	**10.223**

CURRENT SECONDARY MARKET YIELDS

SELECTED SECURITIES

YEAR AND MONTH	GNMA[5]	FNMA[5]	FHLMC[5]	A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1987							
DEC	10.04%	9.96%	9.92%	10.42%	8.99%	6.36%	7.61%
1988							
JAN	9.90	9.78	9.68	10.05	8.67	6.25	6.87
FEB	9.29	9.27	9.23	9.75	8.21	5.93	6.58
MAR	9.39	9.33	9.29	9.91	8.37	5.91	6.62
APR	9.72	9.62	9.59	10.23	8.72	6.21	6.86
MAY	10.01	10.56	10.25	10.61	9.09	6.53	7.19
JUN	**9.97**	**10.10**	**10.06**	**10.41**	**8.92**	**6.76**	**7.49**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
DEC	21	105	97	93
1988				
JAN	12	123	111	101
FEB	11	108	106	102
MAR	37	102	96	92
APR	23	100	90	87
MAY	23	92	147	116
JUN	**n.a.**	**105**	**118**	**114**

NA—Not available. p—Preliminary.

[1] From the National Association of Realtors "Existing Home Sales" series.

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.